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'82 Buyer's Guide

PRODUCT MANUFACTURERS
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SERVICE COMPANIES
FULFILLMENT SPECIALISTS
ASSOCIATIONS
1982 INCENTIVE FORECAST
AND MORE...

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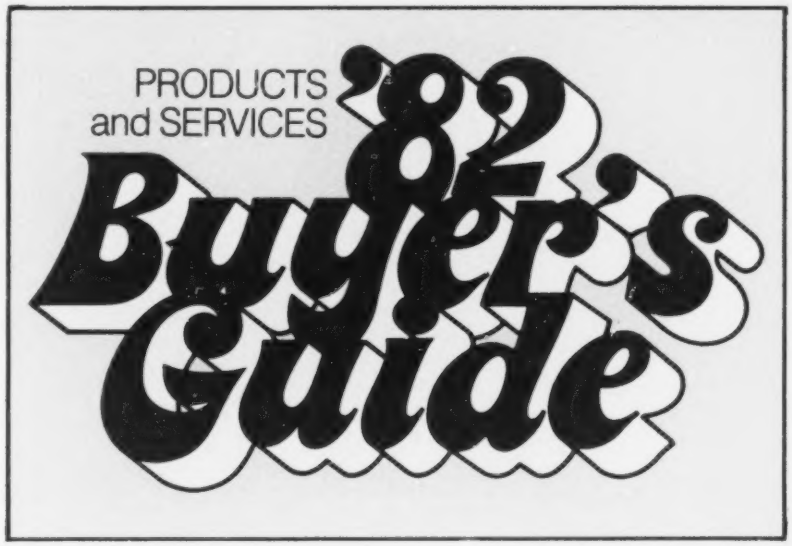
February 1982



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IM Reader Survey Calls 1982 . . .

A Tough, Cautious Year

If you made a New Year's resolution for 1982 to know just what you are doing in your marketing plans, it would have been a good idea to write it with a pencil—one with a good eraser.

The many uncertainties of the past seven or eight years may come out looking rather pale compared with the task of anticipating the national economy in 1982. This is, necessarily, a fact that bears heavily upon the business of forecasting incentive usage by American business for the year.

Users' projections of their planned spending for the coming year—made at a time when futures were still uncertain but a new recession was not widely expected—may be subject to major revision, and a few grains of salt.

Within this murky context, it appears that overall spending for incentive promotions this year will be at a rate about 12.1 percent above 1981—for a new total volume estimated at $10,914,913,000.

The 12.1 percent growth rate continues the downtrend in expansion that has been evident since the 1976 upturn of 18.7 percent, which followed a significant drop in incentive programs the year before. Except for a slight bump of four-tenths of a percentage point last year, incentive activity has grown at a slower pace each succeeding year.

Continuing a trend begun last year, the trade incentive portion of the market, users tell us, will grow at a slightly faster rate than the consumer promotion side. Trade incentive activity will be up 12.6 percent, giving it 47 percent of the total market. This compares with a 17.9 percent growth rate posted by users of sales and dealer incentives in 1981.

The consumer promotion side, coming off a dismal 5 percent overall growth last year, should do better in 1982: users anticipate a dollar increase of 12.1 percent, which would be close to the consumer promotion field's growth rate in 1980.

Within the trade incentive category, the forecast finds the emphasis moving toward still greater usage of sales force incentives—as did the forecast a year ago.

Initial estimates for 1981, published in our January 1981 issue, showed sales force incentives taking an increase of 15.3 percent over the previous year.

Revised figures, based upon a mid-1981 survey of **IM** readers, now suggest the sales force incentive increase was closer to 20.1 percent in 1981. Much of that growth came in merchandise awards, where dollar spending increased 22.5 percent. Travel awards for salespeople were up about 12 percent.

> ***"Consumer promotion should run about 12% ahead of last year, led by projected big gains in spending on direct premiums and factory-packs. While not big growth, it would represent a healthy rebound from last year's dismal 5% increase."***

Sales force incentives will again be the fastest-growing segment of the field in 1982, but the numbers here—as throughout most of the field—are lower, reflecting the more modest expectations for the national economy in 1982.

The survey estimate is that sales force incentive usage will increase 13.4 percent in 1982, bringing this portion of the field to a record $2,768,503,000. Merchandise

"Overall spending on incentive promotion should be up about 12% over 1981, bringing the field to a record $10,914,913,000. Leading the growth will be the trade incentive area, paced by a projected 13% increase in spending on sales force incentives."

awards, which account for about three-quarters of the field, will again lead the growth, with users reporting they plan to increase spending here 13.9 percent. For travel, users of sales force incentives anticipate an 11.6 percent increase.

The anticipated increases for dealer incentives in 1982 are also more modest than a year ago. Total spending should be up 11.7 percent, against a 15.3 percent gain in 1981. This would bring spending on dealer incentives to a record $1,998,069,000.

In a reversal from last year, spending on travel incentives for dealers is expected to grow at a slightly faster rate than the merchandise side. For dealer travel, the forecast is a 12.1 percent gain, while spending on dealer merchandise incentives will be up 11.5 percent.

While the percentages are modest, the increases in trade incentive activity will evidently come from a wide range of users. Forty percent of the users of dealer incentives—the number was the same for merchandise and travel programs—indicated they plan to spend more in 1982 than in 1981. This figure is slightly higher than the response to last year's survey.

In the sales force incentive area, 38 percent of users said they plan increases in merchandise promotion, and 42 percent plan to spend more on travel than they did a year ago. The merchandise figure is a slight drop from last year, while the travel figure is up one percentage point.

The outlook for the incentive travel field in 1982 is good, but growth will probably not match the dramatic increases which the field has enjoyed in earlier years. Users tell us they plan to increase total spending here by 11.8 percent, bringing the incentive travel field to a record $1,252,754,000. That growth rate would be below the 13.3 percent gain posted last year, but slightly ahead of the growth rate chalked up in 1980.

Incentive Usage

1979-80

Promotion Type	1979		% Incr.	1980		% Incr.	
Sales Incentives (merch.)	1,392,742	1,804,145	14.8	1,558,478	1,999,091	11.9	10.8
Sales Incentives (travel)	411,403		13.9	440,613		7.1	
Dealer Incentives (merch.)	943,306	1,407,123	14.8	1,058,389	1,561,630	12.2	11.0
Dealer Incentives (travel)	463,817		8.9	503,241		8.5	
Self-Liquidators	705,055		14.4	800,942		13.6	
Free Mail-In Offers	300,608		15.5	338,785		12.7	
Direct Premiums	601,674	2,283,870	13.0	681,095	2,629,030	13.2	14.9
Factory-Packs	318,833		12.5	388,976		22.0	
Coupon Plan	232,888		16.5	268,520		15.3	
Sweepstakes, Contests	129,812		16.6	150,712		16.1	
Trading Stamps	411,000		14.5	466,000		13.4	
Other Retail	1,127,000		16.5	1,263,000		12.1	
Business Gifts	658,000		16.0	746,000		13.4	
TOTAL	$7,696,138		14.5%	$8,664,751		12.6%	

Users of dealer incentive travel, which accounts for slightly more than half the field, expect to increase their budgets 12.1 percent, while the sales force incentive travel segment should be up 11.6 percent.

While dollar growth may be modest, it seems users are still going ahead with programs. Forty-two percent of sales force incentive users plan to increase their travel budgets, and 40 percent of dealer incentive users expect to spend more. Both of these numbers are increases from a year ago.

On the other hand . . . there's a slight increase in the number of incentive travel users planning cutbacks this year, with 28 percent indicating they are taking that course. Last year, 26 percent of sales force incentive users, and 28 percent of dealer promotion users planned travel cutbacks.

Companies that are heavier-than-average users of incentive travel seem to be planning less dramatic increases or cutbacks. A special survey of travel users, done in mid-1981, found 31 percent planning to increase their budgets in 1982, 12 percent planning to scale back, and 57 percent planning to continue at the same rate.

"Much of the cause of slow incentive growth in 1981—and probably in 1982—can be traced to the automotive companies and the housing-related industries. While all are still big users of incentive promotion, they are not budgeting the double-digit increases of past years."

As the incentive travel field has grown, the annual rate of growth has slowed to where it more or less matches that of the total trade incentive field. Still, in light of the economic uncertainties facing so many of the industries that are major users of incentive travel, a 1982 growth of 11.8 percent would have to be considered a respectable showing.

Consumer promotion in 1982 should run at a rate about equal to the total incentive field—up 12.1 percent, for a total spending of $3,045,341,000 by manufacturers, distributors, and wholesalers. Retailers will contribute another $1,643,000,000 in non-trading stamp promotions, and $515,000,000 for trading stamps.

A 12.1 percent growth rate, while just matching the field's total expectations for the year, would represent a healthy rebound for consumer promotion.

1981-82

Promotion Type	1981		% Incr. (Decr.)		1982	% Incr.
Sales Incentives (merch.)	1,814,068	2,304,911	16.4	15.3	$2,179,233	13.9
Sales Incentives (travel)	490,843		11.4		589.270	11.6
Dealer Incentives (merch.)	1,172,695	1,712,169	10.8	9.6	1,334,585	11.5
Dealer Incentivez (travel)	539,474		7.2		663,484	12.1
Self-Liquidators	961,931		20.1		927,920	10.4
Free Mail-In Offers	360,806		6.5		406,414	9.6
Direct Premiums	762,826	2,950,211	12.0	12.2	726,772	14.4
Factory-Packs	441,099		13.4		486,544	14.1
Coupon Plan	282,483		5.2		326,132	11.2
Sweepstakes, Contests	141,066		(6.4)		171,559	12.2
Trading Stamps	531,000		13.9		515,000	9.3
Other Retail	1,428,000		13.1		1,643,000	13.1
Business Gifts	851,000		14.1		945,000	9.0
TOTAL	$9,777,291		12.8%		$10,914,913	12.1%

> ***The outlook for incentive travel is about an 11% increase in dollar volume—not the spectacular growth of the past, but still respectable in light of the economic woes affecting so many industries that are major travel users.***

But even this 12.1 percent figure may be overly optimistic, since it relies heavily on big jumps in just two categories: direct premiums, which is forecast for a 14.4 percent gain; factory-packs, where users anticipate a 14.1 percent hike.

If spending on direct premiums does increase 14.4 percent this year, it would seem to be an impressive rebound from last year, when usage dropped 5.6 percent.

But that seeming dip in direct premium usage last year, and the corresponding rebound this year, may be more paper than real. The greatest part of the projected dip in usage came in the category of Banks and Savings & Loans—threatened during most of 1980 by a Federal move to ban all premium promotion in the financial field.

By the time the prohibition proposal was dropped, and the dust settled in October 1980, plans for 1981 promotion had been set—without premiums in many cases. Yet premium activity by financial institutions was very evident last year, and it seems likely that the next Census of Usage report, to be published in December 1982, will reflect some real growth in direct premium spending last year.

The forecast for a 14.1 percent increase in spending on factory-pack premiums is more in line with recent trends. Spending on this technique—primarily by Food Product companies, which account for half the usage—has grown 12 to 15 percent annually for the last few years.

These spending increases correlate with marketer's evaluation of the factory-pack as an effective promotion technique. A special survey of consumer promotion users last year found they rate the factory-pack as tops for achieving two goals vital to consumer product success: 'Obtaining Store Displays' and 'Getting Shelf Attention.' In a society oriented to instant gratification, the appeal of the factory-pack premium, available immediately with purchase, remains strong.

Mail-in promotions, coming off a lackluster 1981, show slightly stronger usage planned for this year, but the numbers are still well below the total incentive field averages, as they were also last year.

Incentive Users Planning . . .

Promotion Type	Increase	Decrease	No Change
Sales Incentives (Mdse.)	38%	28%	34%
Sales Incentives (Travel)	*42	28	30
Dealer Incentives (Mdse.)	*40	28	32
Dealer Incentives (Travel)	*40	28	32
Business Gifts	30	26	44
Direct Premiums	40	28	32
Factory-Packs	38	32	30
Coupon Plan	*38	30	32
Self-Liquidators	36	28	36
Free Mail-In Offers	31	31	38
Sweepstakes & Contests	36	27	37
TOTAL	36	27	37

*Higher than 1981 reports

Self-liquidators, which account for 70 percent of the mail-in dollar volume expended by incentive users, grew only 6.3 percent in 1981, well below the inflation rate—for a picture of real decline. This year, possibly with somewhat lower inflation, they are expected to chalk up a 10.4 percent dollar gain.

Free-mail-ins did better in 1981—and better than was forecast a year ago—by posting a 10 percent gain over the previous year. For 1982, they are expected to do almost as well—up 9.6 percent.

Sweepstakes and contests, possibly the most visible of promotion techniques these days in supermarkets and print media, will get another boost this year, as marketers increase their budgets 12.2 percent.

One attractive feature of chance promotions is that prize budgets don't have to be increased to match inflation every year. Last year's $50,000 grand prize, for example, doesn't need a raise to $55,000 to re-whet consumer interest. A company can maintain a contest prize level for several years without lessening the appeal.

Thus, the dollar amounts expended on prizes—which is the only area the IM survey measures—probably don't reflect the increased usage of this technique or the impact which chance promotions have had on the marketing scene in the last few years.

As a means of stretching a promotion budget, the sweepstake appeals to economically hard-pressed marketing managers as much as the prizes appeal to hard-pressed consumers.

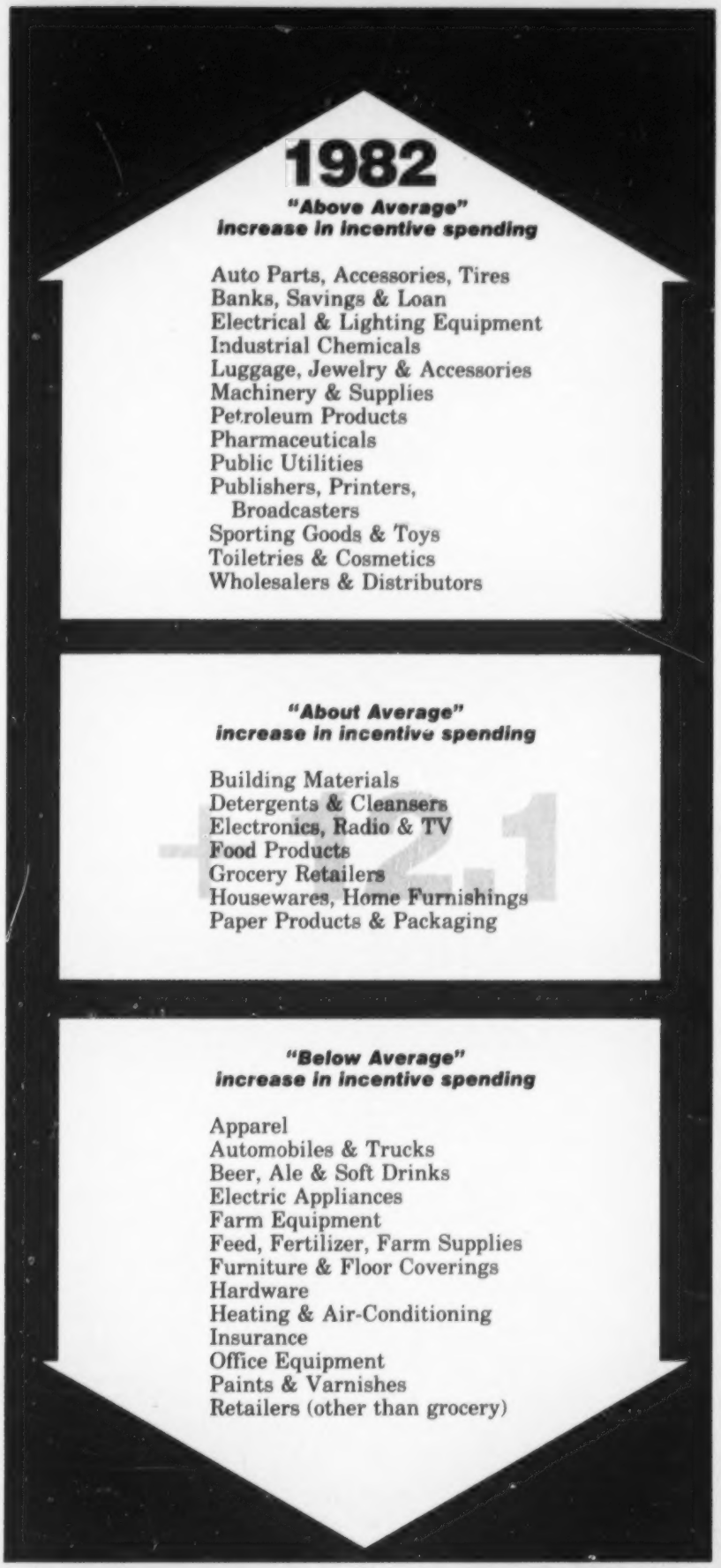
1981's biggest loser, other than direct premiums, was the trading stamp, which came up with an estimated 2.8 percent growth rate in dollars, in a year when inflation ran about four times that rate.

A&P and National food stores dropped stamps in some divisions, and National Car Rental gave up its long-running S&H Green Stamp program.

There were some victories. Dollar Rent-a-Car promptly picked up the car rental franchise for S&H and, at year's end, Air Florida began issuing stamps on intra-state air travel.

Stamps appear to have stabilized, but growth this year should be below-inflation at 9.3 percent.

The weakest area of all, in terms



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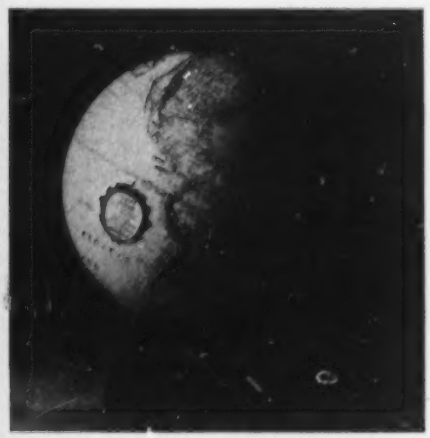

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of projected growth, is business gifts, which users plan to increase by only 9 percent, bringing this portion of the field to $945 million.

After a number of years of relatively small expansion, business gift usage accelerated in 1979, with a jump of 16 percent over the previous year. The next two years saw estimated increases of 13.4 percent and 16.2 percent.

This year, the picture is considerably more conservative. While some 30 percent of executives surveyed say they will spend more for gifts, 44 percent—the largest percentage for any technique—indicated they will stand pat with last year's budget. The remaining 26 percent plan to cut back on their business gift purchases.

Much of the slow total incentive growth in 1981, and probably in 1982, can be traced to some key indicators of the overall economic problems of the nation—the automotive and housing-related industries.

Automobiles & Trucks and Farm Equipment both show growth plans well below the inflation rate, representing an actual decline in incentive activity. Promotional effort in these industries has continued at a high rate, but the declining volume of sales means fewer dollars expended for many programs.

The automotive aftermarket—Auto Parts, Accessories, Tires—is forecasting expenditures above the average rate, showing the high activity that is often seen when the original equipment market falters.

In the realm of housing and related industries, only two components plan average or above-average expansion in 1982. Building Materials forecasts an average expansion, while Electrical & Lighting Equipment forecasts an above-average growth in incentive spending.

Four other industry groups affected by the housing market are all on a relative downtrend in incentive usage: Hardware; Heating & Air Conditioning; Electric Appliances; and Furniture & Floor Coverings.

For many of these hard-pressed industries, average growth would represent an improvement. Last year, virtually all housing-related industry groups fell into the below-average growth forecast.

Ten other industry groups indicate expansion of their incentive activity at a rate somewhat above the field's average. Banks and Savings & Loans, which had shown some weakness in the forecast figures for 1981—probably due to uncertainties about the possible premium ban—now appear ready to greatly accelerate their incentive usage. Industrial Chemicals; Machinery & Supplies; and Petroleum Products all anticipate healthy increases in 1982—expressing relatively greater confidence in the economic prospects for many industrial segments.

Others saying they will use incentives more this year are Luggage, Jewelry & Accessories; Pharmaceuticals; Public Utilities; Publishers, Printers & Broadcasters; Sporting Goods & Toys; Toiletries & Cosmetics. Wholesalers & Distributors in all lines expect good growth.

Both Food Products and Grocery Retailers told us they expect only average increases in 1982. In addition to these and Building Materials, other middle-of-the-road spenders this year will probably include Detergents & Cleansers; Electronics, Radio & TV; Housewares & Home Furnishings; Paper Products & Packaging.

Of the 11 types of incentive promotion surveyed, only four categories show a greater number of companies increasing usage, as compared with their plans stated a year ago. Only one is a consumer technique—the relatively small Coupon Plan—which 38 percent of its users say will receive enlarged budgets this year.

The other increases are all in the trade incentive area. The largest percentage of companies planning increased spending for a single technique is the 42 percent who will budget more for sales force travel programs in 1982. Among dealer incentive users, 40 percent say they will spend more for both merchandise and travel programs.

On the average, 36 percent of the companies reporting said they will increase their incentive spending this year for all types of programs. A year ago, 38 percent gave that indication. About 27 percent plan to reduce expenditures this year, compared with 25 percent taking that course last year.

Although factory-packs show dollar expenditures increasing by 14.1 percent this year, the largest proportion of users plan to reduce their spending for them—32 percent. In last year's forecasts for 1981 spending, factory-packs were the smallest area for budget cuts, mentioned by only 19 percent of those using them.

Most of the reports on which these projections are based were made before the beginning of the current recession. Further analysis, industry by industry, has resulted in modification of many of the forecast estimates.

But such prognostications are still fraught with danger. A year ago, **IM**'s forecast report noted that "The bottoming of the recession came earlier than most people had anticipated—but the recovery prospects look poorer and slower than had been hoped. How will these variations in the scenario affect incentive plans for 1981?"

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The outcome of the 1980 recession is now history—but history did not tell us to expect a new one so soon. Thus we are faced with a double uncertainty—the projection of estimated expenditures and activity for 1982 on the basis of still-indistinct 1981 information. (The reports of actual 1981 expenditures will not be available until near the middle of the year).

If the recession ends by mid-year, as some predict, it seems likely the present forecasts may be close to reality. If it deepens and lasts longer, the chances are that today's estimates will look overly optimistic.

The one sure thing is that, with the emphasis already on sales force incentives, that segment of the field is likely to reach the projected volume—or more.

It is often said that sales incentives can achieve any objective that can be influenced by sales personnel. This truism will continue to be tested in 1982, as it has been in the recent past.

Weighting of the incentive mix in the direction of the sales force seems to be a corollary of uncertain economic conditions. The innate flexibility of the technique makes it most desirable when you can be least sure of what will lie ahead in your market. The application of a campaign, and the rules governing salespeople's performance, can be adjusted infinitely—even revised almost at the last minute before the program is launched, if necessary to meet a new market situation.

There is, however, a more permanent bias toward sales incentives—probably tied not only to general increased use of them, but also to the fact that more marketers have learned to apply them effectively in recent years.

In the first **IM Facts** survey (1967), about 18 percent of all volume went to sales incentives. There has been a steady, though somewhat uneven, rise in this share. Last year sales incentives touched 25 percent of the field for the first time, and present forecasts show they will probably edge up to about 25.4 percent in 1982. Before last year, the peak share had been 23.9 percent in 1975—also a year of great economic uncertainty.

While consumer promotion forecasts for this year show a reasonable, if not spectacular growth, the indications already suggest that sales incentives will be the dominant element in this year's incentive spending. This may become even truer if the national economy does not right itself relatively early in 1982.

That is not to suggest consumer promotion will be less important—it is naturally vital in a sluggish market. But management of the entire distribution complex is the priority in this kind of economy. Consumer promotion can stimulate buying—and dealer incentives can improve the flow of goods into the marketplace—but both take more hard work and more skillful planning and manipulation, and that is the realm of the Salesman and Saleswoman.

It looks very much as if 1982 will be their "Year" at least as much as any year in the recent past. ■

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